



Apr 15th, 10:00 AM - 11:00 AM

Microsoft versus Netscape: A Case Study of Games Businesses Play

Esteban Lizano

Illinois Wesleyan University

Margaret Chapman, Faculty Advisor

Illinois Wesleyan University

Carolyn Stumph, Faculty Advisor

Illinois Wesleyan University

Follow this and additional works at: <http://digitalcommons.iwu.edu/jwprc>

Esteban Lizano; Margaret Chapman, Faculty Advisor; and Carolyn Stumph, Faculty Advisor, "Microsoft versus Netscape: A Case Study of Games Businesses Play" (April 15, 2000). *John Wesley Powell Student Research Conference*. Paper 15. <http://digitalcommons.iwu.edu/jwprc/2000/posters/15>

This Event is brought to you for free and open access by The Ames Library, the Andrew W. Mellon Center for Curricular and Faculty Development, the Office of the Provost and the Office of the President. It has been accepted for inclusion in Digital Commons @ IWU by the faculty at Illinois Wesleyan University. For more information, please contact digitalcommons@iwu.edu.

©Copyright is owned by the author of this document.

Poster Presentation 31

**MICROSOFT VERSUS NETSCAPE: A CASE STUDY OF
GAMES BUSINESSES PLAY**

Esteban Lizano and Margaret Chapman* and Carolyn Stumph*
Department of Economics, Illinois Wesleyan University

Game theory is a formalized way of analyzing interactions between rational players in hopes of "solving" the game, or finding a solution that optimizes outcomes for both players given each others strategies. This framework is used to analyze the interactions and strategies of the two main providers of Internet Browsing Software, i.e. Microsoft (Internet Explorer) and Netscape (Netscape Navigator.) Since both of these firms price their product close to zero, and given that marginal costs approach zero, they are using competitive short run pricing. Focusing on pricing to study strategic behavior ignores that both firms must price to cover sunk costs over the long run and that revenue proceeding from sale of the product is not the main source to cover this cost. Therefore, pricing of the software itself is not the essential element in the players' strategies. This game will therefore be constructed and solved as a dynamic repeated game, using market share and research and development expenditure as the principal strategic variables to study the behavior of both firms from 1993 to the present.